

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

CHRISTINA STUTZ

MAY 3, 2012



DOCKET NO. 2011-229-WS

**Application of Daufuskie Island Utility
Company, Incorporated for Approval of
Water and Sewer Rates, Terms and
Conditions**

DIRECT TESTIMONY OF CHRISTINA STUTZ

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2011-229-WS

**IN RE: APPLICATION OF DAUFUSKIE ISLAND UTILITY COMPANY,
INCORPORATED FOR APPROVAL OF WATER AND SEWER RATES, TERMS
AND CONDITIONS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
OCCUPATION.**

A. My name is Christina Stutz. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff (“ORS”) as an Audit Senior.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Bachelor of Science degree with a major in Accounting from
the University of South Carolina in 2004. In April 2005, I began my employment
with ORS. I have performed several audits of utility companies and have testified
before the Public Service Commission of South Carolina (“Commission”).

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
PROCEEDING?**

A. The purpose of my testimony is to set forth my findings and
recommendations resulting from ORS’s examination of the Application of

**THE OFFICE OF REGULATORY STAFF
1401 Main Street, Suite 900
Columbia, SC 29201**

1 Daufuskie Island Utility Company, Inc. (“DIUC” or “Applicant”) in this docket.
2 The Application was filed on January 10, 2012.

3 **Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**
4 **EXAMINATION OF THE APPLICATION OF DAUFUSKIE ISLAND**
5 **UTILITY COMPANY, INC.**

6 **A.** ORS’s examination of DIUC’s Application consisted of three major steps.
7 In step one, ORS verified that the operating experience and rate base, reported by
8 DIUC in its application, were supported by DIUC’s accounting books and records
9 for the test year. In the second step, ORS tested the underlying transactions in the
10 books and records for the same period to ensure that the transactions were
11 adequately supported, had a stated business purpose, were allowable for
12 ratemaking purposes, and were properly recorded. Lastly, ORS’s examination
13 consisted of adjusting, as necessary, the revenues, expenditures, and capital
14 investments to normalize DIUC’s operating experience and rate base, in
15 accordance with generally accepted regulatory principles and Commission orders.

16 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**
17 **TESTIMONY.**

18 **A.** I have attached the following exhibits to my testimony relating to the
19 Application of Daufuskie Island Utility Company, Inc.:

- 20 • Audit Exhibit CAS-1: Operating Experience, Rate Base, and Rates of Return
21 for Combined Operations
- 22 • Audit Exhibit CAS-2: Operating Experience, Rate Base, and Rates of Return
23 for Water Operations

- 1 • Audit Exhibit CAS-3: Operating Experience, Rate Base, and Rates of Return
- 2 for Sewer Operations
- 3 • Audit Exhibit CAS-4: Explanation of Accounting and Pro forma Adjustments
- 4 • Audit Exhibit CAS-5: Computation of Depreciation and Amortization
- 5 Expense
- 6 • Audit Exhibit CAS-6: Computation of Income Taxes
- 7 • Audit Exhibit CAS-7: Cash Working Capital Allowance
- 8 • Audit Exhibit CAS-8: Return on Equity

9 These exhibits were either prepared by me or were prepared under my direction
10 and supervision in compliance with recognized accounting and regulatory
11 procedures for water and wastewater utility rate cases. These exhibits show
12 various aspects of DIUC's operations and financial position.

13 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CAS-1 AND**
14 **ELABORATE ON THE CALCULATIONS.**

15 **A.** Audit Exhibit CAS-1 shows DIUC's operating experience, rate base, and
16 rates of return for water and wastewater operations for the test year ended June 30,
17 2011. The exhibit's format is designed to reflect the Application per books, ORS's
18 proposed accounting and pro forma adjustments necessary to normalize the results
19 of DIUC's test year operations, and to calculate the impact of DIUC's proposed
20 increase on the normalized test year. The water and wastewater operations are also
21 shown separately in Audit Exhibit CAS-2 and Audit Exhibit CAS-3.
22 Column (1) shows the Application per books calculated by DIUC for the test year
23 ended June 30, 2011. ORS verified total operating revenues of \$716,592, total

1 operating expenses of \$641,350, and net income for return of \$75,242 to the
2 Applicant's books and records. ORS verified total rate base of \$6,410,780. Total
3 per book rate of return of 1.17% was calculated by dividing net income for return
4 by total rate base.

5 Column (2) shows ORS's proposed accounting and pro forma adjustments designed
6 to normalize the Application per books. An explanation of each adjustment is
7 contained in Audit Exhibit CAS-4.

8 Column (3) shows ORS's result of a normalized test year for DIUC by adding
9 columns (1) and (2). After the accounting and pro forma adjustments, Net Income
10 for Return of \$134,146 was computed using Total Operating Revenues of
11 \$714,996, less Total Operating Expenses of \$580,850. Total Rate Base amounted
12 to \$4,615,493 producing a Return on Rate Base of 2.91%. As shown on Audit
13 Exhibit CAS-8, the resulting Return on Equity is (1.27%).

14 Column (4) shows Applicant's proposed increase, recalculated by ORS, and the
15 calculation of bad debt and taxes associated with the proposed increase. An
16 explanation of each adjustment is contained in Audit Exhibit CAS-4.

17 Column (5) shows the effect of the Applicant's proposed rate increase by adding
18 columns (3) and (4). Net Income for Return of \$534,489 was computed using Total
19 Operating Revenues of \$1,372,274, less Total Operating Expenses of \$837,785.
20 Total Rate Base amounted to \$4,615,493 producing a Return on Rate Base of
21 11.58%. As shown on Audit Exhibit CAS-8, the resulting Return on Equity is
22 17.49%.

1 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CAS-4.**

2 **A.** For comparative purposes, ORS and Applicant's adjustments are both
3 presented in Audit Exhibit CAS-4.

4 Adjustments 1-5 – The ORS Water and Wastewater Department proposes to
5 normalize water and wastewater revenues for the test year. Details of these
6 adjustments are discussed in the direct testimony and exhibits of ORS witness,
7 Willie Morgan.

8 Adjustment 6 – ORS proposes to annualize the latest available salary information
9 as of January 2012. DIUC has three full-time operators and one part-time
10 operator. Since DIUC did not provide sufficient information for overtime pay or
11 for the part-time employee's pay, both have been excluded from the adjustment.
12 ORS computed annualized salaries of \$112,610, less per book salaries of
13 \$132,700, for an adjustment of (\$20,090).

14 Adjustment 7 – ORS proposes to annualize employee benefits for two employees.
15 Total ORS computed employee benefits were \$8,378, less the per book amount of
16 \$9,080, resulting in an adjustment of (\$702).

17 Adjustment 8 – ORS does not propose to adjust power for increased demand,
18 since the impact is not known and measurable. Additionally, this type of
19 adjustment has been disallowed by the Commission in prior cases. During the
20 review of this account, and various accounts to follow, ORS found several
21 expenses that did not have the proper support documents. ORS proposes to
22 remove undocumented power expenses of (\$7,418).

1 Adjustment 9 – ORS does not propose to adjust chemicals for increased demand,
2 since the impact is not known and measurable. Additionally, this type of
3 adjustment has been disallowed by the Commission in prior cases. ORS proposes
4 to remove undocumented chemical expenses of (\$358).

5 Adjustment 10 – ORS does not propose to adjust operating supply costs for an
6 increase in customers. This amount is not known and measurable, and DIUC did
7 not experience customer growth. ORS proposes to remove undocumented
8 operating supply expenses of (\$8,764).

9 Adjustment 11 – ORS proposes to adjust outside services for management fees by
10 removing a 3.5% yearly increase and expenses related to customer growth for a
11 total adjustment of (\$2,420). ORS considers these factors as similar to inflation,
12 and DIUC has not experienced customer growth. Under the management
13 agreement with Guastella Associates, LLC, DIUC pays a monthly fee of \$11,018
14 for services which include billing, maintaining financial books and records,
15 supervising employees, supervising daily operations and maintenance, and
16 financial reporting.

17 Adjustment 12 - ORS does not propose to adjust outside services for engineering
18 expenses to reflect a five-year average. This type of adjustment is not typically
19 made for normal test year expense items. ORS included the amount reflected in
20 the test year of \$10,681, less undocumented engineering expenses of (\$5,584).

21 Adjustment 13 – ORS proposes to remove expenses incurred outside of the test
22 year for accounting services of (\$800).

1 Adjustment 14 – ORS proposes to remove expenses incurred outside of the test
2 year for legal services of (\$8,875).

3 Adjustment 15 - ORS proposes to remove undocumented expenses for testing
4 services of (\$806).

5 Adjustment 16 – ORS does not propose to adjust other outside services for
6 support and maintenance of a new billing system. DIUC has not purchased a new
7 billing system, and, therefore the expense is not known and measurable. ORS
8 proposes to remove undocumented other expenses of (\$1,442).

9 Adjustment 17 – ORS does not propose to increase transportation costs to reflect
10 an increase in employees. ORS did not include any additional employees and was
11 unable to verify a part-time employee due to lack of documentation. ORS
12 proposes to remove undocumented transportation expenses of (\$331).

13 Adjustment 18 – ORS proposes to adjust bad debt expense at a rate of 0.5%
14 applied to pro forma metered revenues of \$414,335 and a rate of 2.50% applied to
15 pro forma availability billing revenues of \$290,416. The Applicant's factors were
16 considered reasonable by the ORS Water and Wastewater Department. ORS
17 computed total bad debt expense of \$9,332, less the per book amount of \$25,423,
18 for a total adjustment of (\$16,091).

19 Adjustment 19 – ORS does not propose to increase general liability insurance for
20 recent quotes, since the expense has not yet been incurred.

21 Adjustment 20 - ORS does not propose to adjust other A&G expenses to reflect
22 the annual NAWC membership dues of \$700, since the expense has not yet been
23 incurred or booked. ORS proposes to remove non-allowable and undocumented

1 expenses of (\$1,992) that include late fees, employee expenses, and returned
2 check fees.

3 Adjustment 21 - ORS proposes to annualize depreciation expense on verified plant
4 in service. Depreciable plant includes expenditures approved in the most recent
5 rate cases (Docket No. 2005-34-WS and Docket No. 2005-74-WS) and additions
6 since those cases, supported by proper documentation. DIUC proposes to allocate
7 depreciation expense on the plant used by current customers. DIUC proposed using
8 utilization factors computed as total current customers to total customers the system
9 can serve at maximum capacity. Depreciation rates and utilization factors were
10 provided by the ORS Water and Wastewater Department and are addressed in Mr.
11 Morgan's testimony. The details of the depreciation expense adjustment are shown
12 in Audit Exhibit CAS-5. ORS's total depreciation expense amounted to \$61,434,
13 less the per book amount of \$57,445, for a total adjustment of \$3,989.

14 Adjustment 22 – ORS proposes to adjust amortization of Contributions in Aid of
15 Construction ("CIAC") based on updated depreciation and utilization rates
16 provided by ORS's Water and Wastewater Department. The details of the
17 amortization of CIAC adjustment are shown in Audit Exhibit CAS-5. ORS's total
18 amortization of CIAC expense amounted to (\$5,257).

19 Adjustment 23 – ORS proposes to adjust amortization expense for rate case
20 expenses of \$75,000 amortized over five years. DIUC proposed to include up to
21 \$75,000 of rate case expenses and noted the shareholders will absorb any
22 remaining costs. These rate case expenses included the preparation of the
23 application by Guastella Associates, LLC, developing rate models, calculating test

1 year data, and filing other rate case documents. DIUC also proposed a four-year
2 amortization period; however, since the last rate cases for Haig Point and Melrose
3 were filed in 2005, ORS proposes that a five-year amortization period is more
4 reasonable. ORS's amortization expense adjustment amounted to \$15,000
5 (\$75,000/5 years).

6 Adjustment 24 – ORS proposes to adjust for gross receipts and utility/commission
7 taxes. Pro forma revenues of \$714,996 were multiplied by the rate of .00951022,
8 which is a combination of the gross receipts factor of .003 and utility/commission
9 tax of .00610216. Total ORS computed taxes were \$6,799, less per book amount
10 of \$3,649, resulting in an adjustment of \$3,150.

11 Adjustment 25 – ORS proposes to adjust property taxes by \$87 to reflect actual
12 tax bills and rates from tax records obtained from Beaufort County. ORS did not
13 include property taxes for undocumented plant expenditures.

14 Adjustment 26 – ORS proposes to adjust for payroll taxes associated with the
15 adjusted test year salaries. The payroll taxes include FICA and both state and
16 federal unemployment taxes. ORS proposes to decrease payroll taxes by (\$1,796).

17 Adjustment 27 – ORS proposes to adjust gross plant in service for undocumented
18 expenditures since the most recent rate cases. Due to the lack of documentation,
19 ORS proposes to remove (\$1,740,523) from plant in service as shown in the
20 adjustment column on exhibit CAS-5. A large portion of this amount is related to
21 the fact that DIUC could not provide verification of ownership for the elevated
22 storage tank of \$863,379; therefore, this amount has been excluded from rate base.
23 The elevated storage tank is discussed in the testimony of ORS witness, Willie

1 Morgan. Various other amounts were removed due to lack of documentation. For
2 water plant, this included removing land of \$159,384, water wells of \$61,956,
3 treatment plant of \$13,858 and \$66,369, treatment and disposal plant of \$93,795
4 and \$12,717, mains and meters of \$72,947, and other items. For sewer plant,
5 removal included land of \$309,117, pumping plant of \$15,162, collection mains of
6 \$28,962, treatment and disposal plant of \$41,381, and other items.

7 Adjustment 28 – ORS proposes to adjust accumulated depreciation on pro forma
8 plant by (\$42,388) to reflect depreciation and utilization rates as recommended by
9 ORS Water/Wastewater Department.

10 Adjustment 29 – ORS does not propose to increase CIAC for customer growth.
11 DIUC did not experience growth during the test year. ORS proposes to adjust
12 CIAC by (\$2,500) to reflect the correct booked amount. The details of the CIAC
13 adjustment are shown on Audit Exhibit CAS-5.

14 Adjustment 30 – ORS proposes to increase accumulated amortization of CIAC to
15 reflect additional amortization of \$5,257 as a result of adjustment 22.

16 Adjustment 31 – ORS proposes to adjust cash working capital after accounting
17 and pro forma adjustments. ORS agrees with DIUC to use an allowable rate of
18 20% (1/5 of O&M expenses) based on the quarterly billing cycle. The formula is
19 based on the average number of days per billing cycle, plus a 30-day collection
20 period, divided by 360 days ($45 + 30 / 360 = 20\%$). ORS computed cash working
21 capital of \$98,715, less the per book amount of \$113,848, resulting in an adjustment
22 of (\$15,133). See Audit Exhibit CAS-7.

1 Adjustment 32 – ORS does not propose to include the unamortized balance of rate
2 case expenses in rate base. This type of adjustment has not been approved by the
3 Commission in prior cases.

4 Adjustment 33 – ORS proposes to adjust allowable interest expense to reflect the
5 rate base after accounting and pro forma adjustments using the capitalization ratio
6 of 53.8% for debt and 46.2% for equity and a cost of debt of 6.5%. ORS
7 computed an adjustment of (\$62,746). See Audit Exhibit CAS-8 for ORS's
8 computed interest expense. Details of the capital structure can be found in the
9 direct testimony and exhibits of ORS's witness, Dr. Douglas H. Carlisle.

10 Adjustment 34-38 – Based upon ORS Water and Wastewater Department
11 calculations, DIUC's proposed rates would produce additional revenues of
12 \$657,278. Details of these adjustments are shown in direct testimony and exhibits
13 of ORS witness, Willie Morgan.

14 Adjustment 39 – ORS proposed to adjust for bad debt expense associated with
15 DIUC's recalculated proposed rate increase.

16 Adjustment 40 – ORS proposes to adjust gross receipts and utility/commission
17 taxes associated with the revenues after the proposed increase. ORS used a factor
18 of .00951022, which is comprised of the PSC and ORS factor of .006510216 and
19 the Department of Revenue's factor of .003. ORS's total adjustment is \$6,251
20 (\$657,278 x .00951022).

21 Adjustment 41 – ORS proposes to adjust for income taxes associated with the
22 Applicant's proposed rate increase. See Audit Exhibit CAS-6 for the computation
23 of income taxes.

1 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

2 **A.** Audit Exhibit CAS-5 shows the depreciation expense and amortization of
3 CIAC adjustment. Audit Exhibit CAS-6 shows the computation of income taxes.
4 Audit Exhibit CAS-7 shows the calculation of the cash working capital allowance.
5 Audit Exhibit CAS-8 shows the calculation of return on common equity.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 **A.** Yes.

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended June 30, 2011
Combined Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Residential	232,729	7,888 (A)	240,617	218,121 (GG)	458,738
Commercial	93,468	(9,510) (B)	83,958	62,717 (HH)	146,675
Irrigation	83,314	6,446 (C)	89,760	88,923 (II)	178,683
Availability Billing	296,837	(6,421) (D)	290,416	278,169 (JJ)	568,585
Misc. Other Revenue	10,244	1 (E)	10,245	9,348 (KK)	19,593
<u>Total Operating Revenues</u>	<u>716,592</u>	<u>(1,596)</u>	<u>714,996</u>	<u>657,278</u>	<u>1,372,274</u>
<u>Operating Expenses:</u>					
Wages	132,700	(20,090) (F)	112,610	0	112,610
Benefits	9,080	(702) (G)	8,378	0	8,378
Director's Fees	4,500	0	4,500	0	4,500
Power	95,637	(7,418) (H)	88,219	0	88,219
Chemicals	2,541	(358) (I)	2,183	0	2,183
Supplies & Maintenance	27,012	(8,764) (J)	18,248	0	18,248
Outside Services-Mgmt	134,632	(2,420) (K)	132,212	0	132,212
Outside Services-Engineering	10,681	(5,584) (L)	5,097	0	5,097
Outside Services-Accounting	1,200	(800) (M)	400	0	400
Outside Services-Legal	9,880	(8,875) (N)	1,005	0	1,005
Outside Services-Testing	56,972	(806) (O)	56,166	0	56,166
Outside Services-Other	1,458	(1,442) (P)	16	0	16
Transportation	11,509	(331) (Q)	11,178	0	11,178
Bad Debt	25,423	(16,091) (R)	9,332	8,803 (LL)	18,135
Insurance	14,000	0 (S)	14,000	0	14,000
Regulatory Commission Expense	14,978	0	14,978	0	14,978
Other A&G Expenses	17,044	(1,992) (T)	15,052	0	15,052
<u>Total O&M Expenses</u>	<u>569,247</u>	<u>(75,673)</u>	<u>493,574</u>	<u>8,803</u>	<u>502,377</u>
Depreciation	57,445	(1,268) (U)	56,177	0	56,177
Amortization	0	15,000 (V)	15,000	0	15,000
Revenue Taxes	3,649	3,150 (W)	6,799	6,251 (MM)	13,050
Property Taxes	85	87 (X)	172	0	172
Payroll Taxes	10,924	(1,796) (Y)	9,128	0	9,128
State and Federal Income Taxes	0	0	0	241,881 (NN)	241,881
<u>Total Operating Expenses</u>	<u>641,350</u>	<u>(60,500)</u>	<u>580,850</u>	<u>256,935</u>	<u>837,785</u>
<u>Net Income for Return</u>	<u>75,242</u>	<u>58,904</u>	<u>134,146</u>	<u>400,343</u>	<u>534,489</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended June 30, 2011
Combined Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	7,494,050	(1,740,523) (Z)	5,753,527	0	5,753,527
Accumulated Depreciation	(599,103)	(42,388) (AA)	(641,491)	0	(641,491)
Contributions in Aid of Construction	(648,295)	(2,500) (BB)	(650,795)	0	(650,795)
Accumulated Amortization of CIAC	50,280	5,257 (CC)	55,537	0	55,537
Net Plant	6,296,932	(1,780,154)	4,516,778	0	4,516,778
Working Capital	113,848	(15,133) (DD)	98,715	0	98,715
Unamortized Balance	0	0 (EE)	0	0	0
<u>Total Rate Base</u>	<u>6,410,780</u>	<u>(1,795,287)</u>	<u>4,615,493</u>	<u>0</u>	<u>4,615,493</u>
<u>Return on Rate Base</u>	<u>1.17%</u>		<u>2.91%</u>		<u>11.58%</u>
<u>Operating Margin</u>	<u>-20.77%</u>		<u>-3.80%</u>		<u>27.19%</u>
<u>Interest Expense</u>	<u>224,060</u>	<u>(62,746) (FF)</u>	<u>161,314</u>		<u>161,314</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended June 30, 2011
Water Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Residential	107,059	4,487 (A)	111,546	112,815 (GG)	224,361
Commercial	45,399	(4,979) (B)	40,420	31,300 (HH)	71,720
Irrigation	83,314	6,446 (C)	89,760	88,923 (II)	178,683
Availability Billing	132,231	(2,554) (D)	129,677	122,998 (JJ)	252,675
Misc. Other Revenue	4,829	354 (E)	5,183	4,710 (KK)	9,893
<u>Total Operating Revenues</u>	<u>372,832</u>	<u>3,754</u>	<u>376,586</u>	<u>360,746</u>	<u>737,332</u>
<u>Operating Expenses:</u>					
Wages	66,350	(10,045) (F)	56,305	0	56,305
Benefits	4,540	(351) (G)	4,189	0	4,189
Director's Fees	2,250	0	2,250	0	2,250
Power	68,552	(3,709) (H)	64,843	0	64,843
Chemicals	404	(179) (I)	225	0	225
Supplies & Maintenance	13,210	(4,382) (J)	8,828	0	8,828
Outside Services-Mgmt	67,316	(1,210) (K)	66,106	0	66,106
Outside Services-Engineering	7,906	(2,792) (L)	5,114	0	5,114
Outside Services-Accounting	600	(400) (M)	200	0	200
Outside Services-Legal	4,940	(4,437) (N)	503	0	503
Outside Services-Testing	44,790	(403) (O)	44,387	0	44,387
Outside Services-Other	1,047	(721) (P)	326	0	326
Transportation	6,292	(136) (Q)	6,156	0	6,156
Bad Debt	13,279	(8,828) (R)	4,451	4,240 (LL)	8,691
Insurance	7,000	0 (S)	7,000	0	7,000
Regulatory Commission Expense	5,546	0	5,546	0	5,546
Other A&G Expenses	9,402	(996) (T)	8,406	0	8,406
<u>Total O&M Expenses</u>	<u>323,424</u>	<u>(38,589)</u>	<u>284,835</u>	<u>4,240</u>	<u>289,075</u>
Depreciation	29,239	(3,932) (U)	25,307	0	25,307
Amortization	0	7,500 (V)	7,500	0	7,500
Revenue Taxes	2,189	1,392 (W)	3,581	3,431 (MM)	7,012
Property Taxes	29	1 (X)	30	0	30
Payroll Taxes	5,462	(898) (Y)	4,564	0	4,564
State and Federal Income Taxes	0	0	0	133,404 (NN)	133,404
<u>Total Operating Expenses</u>	<u>360,343</u>	<u>(34,526)</u>	<u>325,817</u>	<u>141,075</u>	<u>466,892</u>
<u>Net Income for Return</u>	<u>12,489</u>	<u>38,280</u>	<u>50,769</u>	<u>219,671</u>	<u>270,440</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended June 30, 2011
Water Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	3,852,476	(1,351,442) (Z)	2,501,034	0	2,501,034
Accumulated Depreciation	(267,072)	(29,876) (AA)	(296,948)	0	(296,948)
Contributions in Aid of Construction	(451,000)	(2,500) (BB)	(453,500)	0	(453,500)
Accumulated Amortization of CIAC	37,648	3,815 (CC)	41,463	0	41,463
Net Plant	3,172,052	(1,380,003)	1,792,049	0	1,792,049
Working Capital	64,684	(7,717) (DD)	56,967	0	56,967
Unamortized Balance	0	0 (EE)	0	0	0
<u>Total Rate Base</u>	<u>3,236,736</u>	<u>(1,387,720)</u>	<u>1,849,016</u>	<u>0</u>	<u>1,849,016</u>
<u>Return on Rate Base</u>	<u>0.39%</u>		<u>2.75%</u>		<u>14.63%</u>
<u>Operating Margin</u>	<u>-26.99%</u>		<u>-3.68%</u>		<u>27.91%</u>
<u>Interest Expense</u>	<u>113,126</u>	<u>(48,502) (FF)</u>	<u>64,624</u>		<u>64,624</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended June 30, 2011
Sewer Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Residential	125,670	3,401 (A)	129,071	105,306 (GG)	234,377
Commercial	48,069	(4,531) (B)	43,538	31,417 (HH)	74,955
Irrigation	0	0 (C)	0	0 (II)	0
Availability Billing	164,606	(3,867) (D)	160,739	155,171 (JJ)	315,910
Misc. Other Revenue	5,415	(353) (E)	5,062	4,638 (KK)	9,700
<u>Total Operating Revenues</u>	343,760	(5,350)	338,410	296,532	634,942
<u>Operating Expenses:</u>					
Wages	66,350	(10,045) (F)	56,305	0	56,305
Benefits	4,540	(351) (G)	4,189	0	4,189
Director's Fees	2,250	0	2,250	0	2,250
Power	27,085	(3,709) (H)	23,376	0	23,376
Chemicals	2,137	(179) (I)	1,958	0	1,958
Supplies & Maintenance	13,802	(4,382) (J)	9,420	0	9,420
Outside Services-Mgmt	67,316	(1,210) (K)	66,106	0	66,106
Outside Services-Engineering	2,775	(2,792) (L)	(17)	0	(17)
Outside Services-Accounting	600	(400) (M)	200	0	200
Outside Services-Legal	4,940	(4,438) (N)	502	0	502
Outside Services-Testing	12,182	(403) (O)	11,779	0	11,779
Outside Services-Other	411	(721) (P)	(310)	0	(310)
Transportation	5,217	(195) (Q)	5,022	0	5,022
Bad Debt	12,144	(7,263) (R)	4,881	4,563 (LL)	9,444
Insurance	7,000	0 (S)	7,000	0	7,000
Regulatory Commission Expense	9,432	0	9,432	0	9,432
Other A&G Expenses	7,642	(996) (T)	6,646	0	6,646
<u>Total O&M Expenses</u>	245,823	(37,084)	208,739	4,563	213,302
Depreciation	28,206	2,664 (U)	30,870	0	30,870
Amortization	0	7,500 (V)	7,500	0	7,500
Revenue Taxes	1,460	1,758 (W)	3,218	2,820 (MM)	6,038
Property Taxes	56	86 (X)	142	0	142
Payroll Taxes	5,462	(898) (Y)	4,564	0	4,564
State and Federal Income Taxes	0	0	0	108,477 (NN)	108,477
<u>Total Operating Expenses</u>	281,007	(25,974)	255,033	115,860	370,893
<u>Net Income for Return</u>	62,753	20,624	83,377	180,672	264,049

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended June 30, 2011
Sewer Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	3,641,574	(389,081) (Z)	3,252,493	0	3,252,493
Accumulated Depreciation	(332,031)	(12,512) (AA)	(344,543)	0	(344,543)
Contributions in Aid of Construction	(197,295)	0 (BB)	(197,295)	0	(197,295)
Accumulated Amortization of CIAC	12,632	1,442 (CC)	14,074	0	14,074
Net Plant	3,124,880	(400,151)	2,724,729	0	2,724,729
Working Capital	49,164	(7,416) (DD)	41,748	0	41,748
Unamortized Balance	0	0 (EE)	0	0	0
<u>Total Rate Base</u>	<u>3,174,044</u>	<u>(407,567)</u>	<u>2,766,477</u>	<u>0</u>	<u>2,766,477</u>
<u>Return on Rate Base</u>	<u>1.98%</u>		<u>3.01%</u>		<u>9.54%</u>
<u>Operating Margin</u>	<u>-14.02%</u>		<u>-3.93%</u>		<u>26.36%</u>
<u>Interest Expense</u>	<u>110,934</u>	<u>(14,244) (FF)</u>	<u>96,690</u>		<u>96,690</u>

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2011

Description	DIUC ORS					\$	\$	\$
	Adj.	Adj.				Combined Operations	Water Operations	Sewer Operations
<u>Accounting and Pro forma Adjustments</u>								
<u>Operating Revenues</u>								
(A) Residential	(1a)	1	To adjust residential revenue to reflect the pro forma number of customers at present rates.					
			Per ORS			7,888	4,487	3,401
			Per DIUC			17,453	8,238	9,215
(B) Commercial	(1c)	2	To adjust commercial revenue to reflect the pro forma number of customers at present rates.					
			Per ORS			(9,510)	(4,979)	(4,531)
			Per DIUC			13,318	6,397	6,921
(C) Irrigation	(1e)	3	To adjust irrigation revenue to reflect the pro forma demand at present rates.					
			Per ORS			6,446	6,446	0
			Per DIUC			8,795	8,795	0
(D) Availability Revenue	(1g)	4	To adjust availability revenue to reflect the pro forma number of customers at present rates.					
			Per ORS			(6,421)	(2,554)	(3,867)
			Per DIUC			(4,311)	(1,893)	(2,418)
(E) Miscellaneous Other Revenue	(1g, 1i)	5	To adjust miscellaneous revenues to reflect percentage of pro forma total revenue at present rates relative to test year total revenue.					
			Per ORS			1	354	(353)
			Per DIUC			203	(33)	236
<u>Operating Expenses</u>								
(F) Wages	(2)	6	To annualize salary expense.					
			Per ORS			(20,090)	(10,045)	(10,045)
			Per DIUC			22,362	11,181	11,181
(G) Benefits	(3)	7	To annualize employee benefits.					
			Per ORS			(702)	(351)	(351)
			Per DIUC			(700)	(350)	(350)

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2011

Description	DIUC ORS				\$	\$	\$
	Adj.	Adj.			Combined Operations	Water Operations	Sewer Operations
(H) Power	(5)	8	To adjust power for undocumented expenses. ORS does not propose to adjust power expense for inflation.				
			Per ORS		(7,418)	(3,709)	(3,709)
			Per DIUC		12,495	4,850	7,645
(I) Chemicals	(6)	9	To adjust chemicals for undocumented expenses. ORS does not propose to adjust for increased demand.				
			Per ORS		(358)	(179)	(179)
			Per DIUC		677	74	603
(J) Supplies & Maintenance	(7)	10	To adjust supplies and maintenance for undocumented expenses. ORS does not propose to adjust for an increase in customers.				
			Per ORS		(8,764)	(4,382)	(4,382)
			Per DIUC		1,648	340	1,308
(K) Outside Services - Mgmt		11	To adjust outside management services by removing customer growth and a 3.5% yearly increase.				
			Per ORS		(2,420)	(1,210)	(1,210)
			Per DIUC		0	0	0
(L) Outside Services - Engineering	(8)	12	To adjust outside engineering services for undocumented expense. ORS does not propose to adjust Outside Services-Engineering to reflect 2007-2010 average cost.				
			Per ORS		(5,584)	(2,792)	(2,792)
			Per DIUC		9,145	(556)	9,701
(M) Outside Services - Accounting		13	To adjust outside accounting services for expenses incurred outside of the test year.				
			Per ORS		(800)	(400)	(400)
			Per DIUC		0	0	0
(N) Outside Services - Legal		14	To adjust outside legal services for expenses incurred outside of the test year.				
			Per ORS		(8,875)	(4,437)	(4,438)
			Per DIUC		0	0	0

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2011

Description	DIUC ORS		\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
	Adj.	Adj.			
(O) Outside Services - Testing	15	To adjust outside testing services for undocumented expenses.			
		Per ORS	(806)	(403)	(403)
		Per DIUC	0	0	0
(P) Outside Services - Other	(9) 16	To adjust other outside services for undocumented expenses. ORS does not propose to adjust Outside services-Other to reflect technical support and maintenance of a new billing system.			
		Per ORS	(1,442)	(721)	(721)
		Per DIUC	1,150	575	575
(Q) Transportation	(10) 17	To adjust transportation costs for undocumented expenses and late fees. ORS does not propose to adjust for an increase in employees.			
		Per ORS	(331)	(136)	(195)
		Per DIUC	1,644	899	745
(R) Bad Debt	(11) 18	To adjust bad debt expense to reflect test period revenue write-off percentages applied to ORS pro forma revenue under present rates.			
		Per ORS	(16,091)	(8,828)	(7,263)
		Per DIUC	(16,813)	(8,724)	(8,089)
(S) Insurance	(12) 19	ORS does not propose to adjust general liability insurance to reflect recent quote, since it has not been incurred.			
		Per ORS	0	0	0
		Per DIUC	18,752	9,376	9,376
(T) Other A&G Expenses	(13) 20	To adjust other A&G expenses for undocumented expenses. ORS does not propose to include membership dues not incurred.			
		Per ORS	(1,992)	(996)	(996)
		Per DIUC	700	350	350
(U) <u>Depreciation Expense and Amortization of CIAC</u>	(14) 21	To adjust the annual depreciation for pro forma plant in service. See Audit Exhibit CAS-5.			
		Per ORS	3,989	(117)	4,106
		Per DIUC	8,444	5,591	2,853

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2011

Description	DIUC ORS		\$	\$	\$
	Adj.	Adj.	Combined Operations	Water Operations	Sewer Operations
	22	To adjust for amortization of CIAC. See Audit Exhibit CAS-5.			
		Per ORS	(5,257)	(3,815)	(1,442)
		Per DIUC	(5,565)	(3,915)	(1,650)
		Total Per ORS	(1,268)	(3,932)	2,664
		Total Per DIUC	2,879	1,676	1,203
(V) <u>Amortization</u>	(15)	23 To adjust for the 5-year amortization of rate case expenses.			
		Per ORS	15,000	7,500	7,500
		Per DIUC	45,300	22,650	22,650
(W) <u>Revenue Taxes</u>	(16)	24 To reflect gross receipts on ORS pro forma revenue under present rates.			
		Per ORS	3,150	1,392	1,758
		Per DIUC	3,503	1,561	1,942
(X) <u>Property Taxes</u>	(17)	25 To adjust property taxes to reflect actual tax bills on verified property owned by DIUC.			
		Per ORS	87	1	86
		Per DIUC	9,976	4,334	5,642
(Y) <u>Payroll Taxes</u>	(18)	26 To adjust payroll taxes to reflect pro forma wages.			
		Per ORS	(1,796)	(898)	(898)
		Per DIUC	1,722	861	861
<u>Rate Base</u>					
(Z) <u>Plant in Service</u>		27 To remove undocumented expenses from gross plant in service.			
		Per ORS	(1,740,523)	(1,351,442)	(389,081)
		Per DIUC	10,250	5,125	5,125
(AA) <u>Accumulated Depreciation</u>		28 To adjust accumulated depreciation based on rates and utilization factors recommended by ORS W/WW Department.			
		Per ORS	(42,388)	(29,876)	(12,512)
		Per DIUC	(66,915)	(35,343)	(31,572)

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2011

Description	DIUC ORS		\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
	Adj.	Adj.			
(BB) <u>Contributions in Aid of Construction (CIAC)</u>	29	To adjust CIAC to reflect correct booked amount.			
		Per ORS	(2,500)	(2,500)	0
		Per DIUC	(21,000)	(13,500)	(7,500)
(CC) <u>Accumulated Amortization of CIAC</u>	30	To annualize the amortization of CIAC expense. See Audit Exhibit CAS-5.			
		Per ORS	5,257	3,815	1,442
		Per DIUC	5,565	3,915	1,650
(DD) <u>Cash Working Capital (1/5 O&M)</u>	31	To adjust cash working capital after ORS accounting and pro forma adjustments. See Audit Exhibit CAS-7.			
		Per ORS	(15,133)	(7,717)	(7,416)
		Per DIUC	12,078	4,488	7,590
(EE) <u>Unamortized Balances</u>	32	ORS does not propose to include the unamortized balance of rate case expense in rate base.			
		Per ORS	0	0	0
		Per DIUC	158,550	79,275	79,275
(FF) <u>Interest Expense</u>	33	To adjust the interest expense on long-term debt for accounting and pro forma adjustments.			
		Per ORS	(62,746)	(48,502)	(14,244)
		Per DIUC	0	0	0
<u>Proposed Increase</u>					
<u>Operating Revenues</u>					
(GG) Residential	(1b)	34 To adjust residential revenue to reflect the pro forma number of customers at proposed rates.			
		Per ORS	218,121	112,815	105,306
		Per DIUC	261,868	125,268	136,600
(HH) Commercial	(1d)	35 To adjust commercial revenue to reflect the pro forma number of customers at proposed rates.			
		Per ORS	62,717	31,300	31,417
		Per DIUC	91,322	40,010	51,312

Description	DIUC ORS				\$	\$	\$
	Adj.	Adj.			Combined Operations	Water Operations	Sewer Operations
(II) Irrigation	(1f)	36	To adjust irrigation revenue to reflect the pro forma number of customers at proposed rates.				
			Per ORS		88,923	88,923	0
			Per DIUC		88,082	88,082	0
(JJ) Availability Billing	(1f, 1h)	37	To adjust availability revenue to reflect the pro forma number of customers at proposed rates.				
			Per ORS		278,169	122,998	155,171
			Per DIUC		282,761	125,315	157,446
(KK) Miscellaneous Other Revenue	(1h, 1j)	38	To adjust miscellaneous revenues to reflect percentage of pro forma total revenue at proposed rates relative to pro forma total revenue at proposed rates.				
			Per ORS		9,348	4,710	4,638
			Per DIUC		10,207	4,663	5,544
<u>Operating Expenses</u>							
(LL) <u>Bad Debt</u>	(20)	39	To adjust bad debt expense for pro forma revenues.				
			Per ORS		8,803	4,240	4,563
			Per DIUC		9,336	4,427	4,909
(MM) <u>Revenue Taxes</u>	(21)	40	To adjust gross receipts to reflect pro forma revenue under proposed rates				
			Per ORS		6,251	3,431	2,820
			Per DIUC		6,983	3,646	3,337
(NN) <u>State and Federal Income Taxes</u>	(22)	41	To adjust State and Federal income taxes for the proposed increase.				
			Per ORS		241,881	133,404	108,477
			Per DIUC		171,273	86,553	84,720

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended June 30, 2011

Depreciation Expense Adjustment

Description	Plant in Service	Adjustments	Pro forma Plant	Service Life	Dep Rate	Utilization	Depreciation Expense
	\$	\$	\$				\$
<u>Water - Gross Plant @ 6/30/2011</u>							
<u>Haig Point</u>							
Organizational Costs	0	0	0	40	2.500%	44.79%	0
Land	159,384	(159,384)	0	N/A	0.000%	44.79%	0
Wells	793,065	(61,956)	731,109	30	3.333%	44.79%	10,915
Collection Mains	0	0	0	N/A	0.000%	44.79%	0
Water Treatment Plant	17,346	(13,858)	3,488	32	3.125%	44.79%	49
WW Pumping Plant	0	0	0	N/A	0.000%	44.79%	0
WW Treatment & Disposal Plant	0	0	0	N/A	0.000%	44.79%	0
Distribution Reservoirs	863,379	(863,379)	0	37	2.703%	44.79%	0
Outfall Sewer Lines	0	0	0	N/A	0.000%	44.79%	0
T&D Plant	111,612	(93,795)	17,817	32	3.125%	44.79%	249
Mains, Hydrts, Serv, Meters	1,411,289	4,055	1,415,344	43	2.326%	44.79%	14,743
General Plant-Structures	0	0	0	40	2.500%	44.79%	0
General Plant-Equipment	18,435	(13,494)	4,941	10	10.000%	44.79%	221
<u>Melrose</u>							
Organizational Costs	20,593	0	20,593	N/A	0.000%	32.39%	0
Wells	1,800	0	1,800	30	3.333%	32.39%	19
Collection Mains	0	0	0	N/A	0.000%	32.39%	0
Water Treatment Plant	298,977	(66,369)	232,608	32	3.125%	32.39%	2,354
WW Pumping Plant	0	0	0	N/A	0.000%	32.39%	0
WW Treatment & Disposal Plant	0	0	0	N/A	0.000%	32.39%	0
Distribution Reservoirs	6,000	0	6,000	37	2.703%	32.39%	53
Outfall Sewer Lines	0	0	0	N/A	0.000%	32.39%	0
T&D Plant	23,567	(12,717)	10,850	32	3.125%	32.39%	110
Mains, Hydrts, Serv, Meters	100,056	(72,947)	27,109	43	2.326%	32.39%	204
General Plant-Structures	22,772	2,400	25,172	40	2.500%	32.39%	204
General Plant-Equipment	4,203	0	4,203	10	10.000%	32.39%	0
TOTALS	3,852,478	(1,351,444)	2,501,034				29,122
Per Books			3,852,476				29,239
Adjustment			(1,351,442)				(117)

Sewer - Gross Plant @ 6/30/2011

Haig Point

Organizational Costs	0	0	0	40	2.500%	40.67%	0
Land	309,117	(309,117)	0	N/A	0.000%	40.67%	0
Wells	0	0	0	N/A	0.000%	40.67%	0
Collection Mains	2,055,817	(7,800)	2,048,017	45	2.222%	40.67%	18,509
Water Treatment Plant	0	0	0	N/A	0.000%	40.67%	0
WW Pumping Plant	37,680	(15,162)	22,518	18	5.556%	40.67%	509
WW Treatment & Disposal Plant	514,614	(1,085)	513,529	32	3.125%	40.67%	6,527
Distribution Reservoirs	0	0	0	N/A	0.000%	40.67%	0
Outfall Sewer Lines	66,704	0	66,704	30	3.333%	40.67%	904
T&D Plant	0	0	0	N/A	0.000%	40.67%	0
Mains, Hydrts, Serv, Meters	0	0	0	N/A	0.000%	40.67%	0
General Plant-Structures	0	0	0	40	2.500%	40.67%	0
General Plant-Equipment	9,591	(3,911)	5,680	10	10.000%	40.67%	231

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended June 30, 2011

Depreciation Expense Adjustment

Description	Plant in Service	Adjustments	Pro forma Plant	Service Life	Dep Rate	Utilization	Depreciation Expense
	\$	\$	\$				\$
<u>Melrose</u>							
Organizational Costs	20,593	0	20,593	N/A	0.000%	30.46%	0
Wells	0	0	0	N/A	0.000%	30.46%	0
Collection Mains	62,462	(28,962)	33,500	45	2.222%	30.46%	227
Water Treatment Plant	0	0	0	N/A	0.000%	30.46%	0
WW Pumping Plant	29,198	15,936	45,134	18	5.556%	30.46%	764
WW Treatment & Disposal Plant	508,824	(41,381)	467,443	32	3.125%	30.46%	4,449
Distribution Reservoirs	0	0	0	N/A	0.000%	30.46%	0
Outfall Sewer Lines	0	0	0	30	3.333%	30.46%	0
T&D Plant	0	0	0	N/A	0.000%	30.46%	0
Mains, Hydrts, Serv, Meters	0	0	0	N/A	0.000%	30.46%	0
General Plant-Structures	22,772	2,400	25,172	40	2.500%	30.46%	192
General Plant-Equipment	4,203	0	4,203	10	10.000%	30.46%	0
TOTALS	3,641,575	(389,082)	3,252,493				32,312
Per Books			3,641,574				28,206
Adjustment			(389,081)				4,106

Amortization of CIAC

Description	Plant in Service	Additions	Pro forma CIAC	Dep Rate	Pro forma Utilization	Pro forma Amortization
	\$	\$	\$			\$
<u>Water - CIAC @ 6/30/2011</u>						
<u>Haig Point</u>						
CIAC - Tap Fees	(235,000)	0	(235,000)	2.000%	44.79%	(2,105)
CIAC - Other	(119,000)	0	(119,000)	2.000%	44.79%	(1,066)
<u>Melrose</u>						
CIAC - Tap Fees	(97,000)	0	(97,000)	2.000%	32.39%	(628)
CIAC - Other	0	0	0	2.000%	32.39%	0
TOTALS	(451,000)	0	(451,000)			(3,799)
Adjustments - Haig Pt CIAC	(2,500)	0	(2,500)	2.000%	32.39%	(16)
Total Adjusted Amount			(453,500)			(3,815)
Per Books			(451,000)			0
Adjustment			(2,500)			(3,815)
<u>Sewer - CIAC @ 6/30/11</u>						
<u>Haig Point</u>						
CIAC - Tap Fees	(117,795)	0	(117,795)	2.000%	40.67%	(958)
CIAC - Other	0	0	0	2.000%	40.67%	0
<u>Melrose</u>						
CIAC - Tap Fees	(79,500)	0	(79,500)	2.000%	30.46%	(484)
CIAC - Other	0	0	0	2.000%	30.46%	0
TOTALS	(197,295)	0	(197,295)			(1,442)
Per Books			(197,295)			0
Adjustment			0			(1,442)

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Computation of Income Taxes
For the Test Year Ended June 30, 2011

After Applicant's Proposed Increase

<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
Operating Revenues	1,372,274	737,332	634,942
Operating Expenses	<u>595,904</u>	<u>333,488</u>	<u>262,416</u>
Net Operating Income Before Taxes	776,370	403,844	372,526
Less: Annualized Interest Expense	<u>161,314</u>	<u>64,624</u>	<u>96,690</u>
Taxable Income - State	615,056	339,220	275,836
State Taxable Income	<u>5%</u>	<u>5%</u>	<u>5%</u>
State Income Taxes	30,753	16,961	13,792
Less: State Income Taxes Per Book	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment to State Income Taxes	<u>30,753</u>	<u>16,961</u>	<u>13,792</u>
Taxable Income - Federal	584,303	322,259	262,044
Federal Income Taxes:			
1st \$50,000 @ 15%	7,500	4,136	3,364
Next \$25,000 @ 25%	6,250	3,447	2,803
Next \$25,000 @ 34%	8,500	4,688	3,812
Remaining Balance @ 39%	<u>188,878</u>	<u>104,171</u>	<u>84,707</u>
Total Federal Income Taxes	211,128	116,443	94,685
Less: Federal Income Taxes Per Book	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment to Federal Income Taxes	<u>211,128</u>	<u>116,443</u>	<u>94,685</u>
Total Adjustment to Income Taxes	<u>241,881</u>	<u>133,404</u>	<u>108,477</u>

Note: Taxable income is based on the calculation of net operating income before taxes less annualized interest expense. Since this amount is negative after accounting and pro forma adjustments, there are no income taxes as shown on Audit Exhibits CAS-1, 2 and 3, Column 3.

Daufuskie Island Utility Company, Inc.
Docket No. 2011-229-WS
Cash Working Capital Allowance
For the Test Year Ended June 30, 2011

After Accounting & Pro Forma Adjustments

<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
Total Expenses for Computation	493,574	284,835	208,739
Allowable Rate (1/5 O&M)	<u>20.00%</u>	<u>20.00%</u>	<u>20.00%</u>
Computed Cash Working Capital	98,715	56,967	41,748
Cash Working Capital - Application Per Books	<u>113,848</u>	<u>64,684</u>	<u>49,164</u>
Cash Working Capital Adjustment - ORS Accounting & Pro Forma Adjustment	<u><u>(15,133)</u></u>	<u><u>(7,717)</u></u>	<u><u>(7,416)</u></u>

Description	Capital Structure	Ratio	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 3,500,000	53.8%	\$ 3,447,076	6.50%	3.50%	\$ 224,060	\$ 2,481,751	6.50%	3.50%	\$ 161,314	\$ 2,481,751	6.50%	3.50%	\$ 161,314
Common Equity	3,009,309	46.2%	2,963,704	-5.02%	-2.32%	(148,818)	2,133,742	-1.27%	-0.59%	(27,168)	2,133,742	17.49%	8.09%	373,175
Totals	\$ 6,509,309	100.00%	\$ 6,410,780		1.17%	\$ 75,242	\$ 4,615,493		2.91%	\$ 134,146	\$ 4,615,493		11.58%	\$ 534,489

	Application Per Books						After Accounting and Pro forma Adjustments						After Applicant's Proposed Increase					
Description	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return				
Long-Term Debt	\$ 1,764,003	53.8%	\$ 1,740,393	6.50%	3.50%	\$ 113,126	\$ 994,216	6.50%	3.50%	\$ 64,624	\$ 994,216	6.50%	3.50%	\$ 64,624				
Common Equity	1,516,694	46.2%	1,496,343	-6.73%	-3.11%	(100,637)	854,800	-1.62%	-0.75%	(13,855)	854,800	24.08%	11.13%	205,816				
Totals	\$ 3,280,697	100.00%	\$ 3,236,736		0.39%	\$ 12,489	\$ 1,849,016		2.75%	\$ 50,769	\$ 1,849,016		14.63%	\$ 270,440				

	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase					
Description	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 1,735,997	53.8%	\$ 1,706,683	6.50%	3.50%	\$ 110,934	\$ 1,487,536	6.50%	3.50%	\$ 96,690	\$ 1,487,536	6.50%	3.50%	\$ 96,690
Common Equity	1,492,615	46.2%	1,467,361	-3.28%	-1.52%	(48,181)	1,278,942	-1.04%	-0.48%	(13,313)	1,278,942	13.09%	6.05%	167,359
Totals	\$ 3,228,612	100.00%	\$ 3,174,044		1.98%	\$ 62,753	\$ 2,766,477		3.01%	\$ 83,377	\$ 2,766,477		9.54%	\$ 264,049